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PACIFIC TELESIS
Group-Washington

September 2, 1993

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

Mr. William Caton
Acting Secretary
Federal Communications Commission
Mail Stop Code 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: CC Docket No. 92-296

Dear Mr. Caton:

Yesterday, Mr. John Gueldner, Vice President - Regulatory, Pacific Bell, and Mr. Bill Adler and I of Pacific Telesis Group, met with Commissioner Ervin S. Duggan and Linda L. Oliver, Legal Advisor to Commissioner Duggan, to discuss the proposals for depreciation represcription reform contained in the above referenced proceeding. The handouts used for discussion are attached to this letter. Pacific Bell requests that this letter and the attached handouts be included in the record in the above referenced proceeding.

Acknowledgement and date of receipt of this transmittal are requested. A duplicate letter is attached for this purpose.

Please contact me if you have any questions concerning this matter.

Respectfully submitted,

Sherry Herauf

Attachment

cc: Commissioner Ervin S. Duggan
Linda L. Oliver

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List A B C D E

PACIFIC BELL PERSPECTIVE

PRICE CAP OPTION

- best long term solution
- major savings/flexibility to manage timely recovery
- more than adequate safeguards & oversight:
  FCC, State PUCs, SEC, GAAP

TRIAL COMPANY FOR OPTION D

- Pacific Bell volunteers to trial Option D filing
- California is single largest entity to be represcribed in 1994
- Option D designed for Price Cap companies; why not use it

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PRICE CAP OPTION BENEFITS

OPTION D ALLOWS LECs TO SET RATES WITH FCC APPROVAL

- a long term solution to a long standing problem
- greater flexibility and cost savings
- range Option A or B are interim solutions - limited simplification at best

FCC ABSOLUTELY HAS ADEQUATE OVERSIGHT

- ARMIS reports
- common goal: establish reasonable depreciation rates

EVERY INCENTIVE TO MANAGE PRUDENTLY

- capital recovery process needs long term view
- important to basic health of the business which interests customers, shareholders, internal and external auditors, officers and others

RANGE OPTIONS A OR B

NEITHER IS A LONG TERM SOLUTION

- at best both Options still require significant resources
- suggested improvements:
  - wide ranges
  - based on proposed factors
  - applied to all accounts
- at worst (narrow ranges, limited accounts) Option A or B are no simplification at all
- 33% of Pacific's prescribed factors are better than preliminary Option A ranges set for minor accounts

EITHER REQUIRES SUBSTANTIAL ONGOING WORK

- setting/maintaining appropriate ranges means increasing staff size

OPTION D: IS BEST ALTERNATIVE

IECs & CABLE TV COMPANIES ARE COMPETITORS

- commentors' suggestions tend to hamper competition
- IECs & CATVs gain by LEC's under-depreciation

STATE PUCs DO NOT ADOPT FCC FACTORS

- annual filings with Calif. PUC are simpler with little historical data; more support is provided when asked
- CPUC has granted shorter lives on several major accounts
- CPUC has incorporated improved methods

COMMENTORS ASSUME WITH OPTION D, LECs WILL: ABANDON THE RATE FORMULA; NOT TRACK RESERVES; PROVIDE NO DATA

- absurd notions, evoked a spate of needless, negative comments

1994 REPRESCRIPTION vs. SIMPLIFICATION

TRIAL FOR PRICE CAP OPTION D

- commentors' consensus was that simplification is needed
- Option D was designed for price cap LECs; why not use it?
- California, as largest 1994 entity, makes Pacific the ideal trial company
- Pacific has a good record of complete, accurate studies
- work out any bugs with one, not many LECs